

www.mpers.org

Board of Trustees' Reference Manual

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April 2021

MoDOT & Patrol Employees' Retirement System

Welcome!

It is my pleasure to welcome you to the MoDOT and Patrol Employees' Retirement System (MPERS) Board of Trustees. Whether trustees are elected, appointed, or serving as ex-officio members, there is little to prepare them for their new role as retirement system trustees.

As a general rule, the Board meets four or five times a year to oversee the operation of the System, which may be surprising given the multi-billion dollar responsibility. This is possible because the Board has delegated implementation authority to a highly educated and experienced staff. The staff is expected to manage the System under the purview of applicable law and the policies established by the Board.

This trustee orientation is designed to give you pertinent information about MPERS' statutes, plans, and policies, which will expedite your ability to knowledgeably and prudently carry out your trustee duties. For your convenience, the orientation presentations and other useful reference materials are available on the secure trustee website.

If you have any questions regarding the retirement system or need further explanation regarding subject matter discussed at meetings, please give me a call. An important role of MPERS' staff is to support the needs of board members so it can carry out its duties in a responsible and effective manner.



Scott Simon
Executive Director

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Mission Statement

The MPERS Board of Trustees has a fiduciary responsibility to the members and beneficiaries of the System. In recognition of this responsibility, the system has the following Mission Statement:

"To provide a basic level of financial security to plan participants by delivering quality benefits and exceptional customer service through professional plan administration and prudent management of system assets."

Vision Statement

"To be the best retirement system we can be by making strategic investment decisions and implementing technological tools that streamline our processes and enhance customer service."

Core Values

- Our members are our number one focus...we work for them.
- Our goal is to provide exceptional service always, no matter who is on the phone or sitting across from us.
- We strive to preserve, protect, and grow our assets.
- We are committed to security and privacy of our members' information.
- We make decisions in the best interest of our members based upon statutory guidance.
- We conduct business at a reasonable cost to the taxpayers of Missouri.

MoDOT & Patrol Employees' Retirement System

PO Box 1930 ♦ Jefferson City, MO 65102-1930

1913 William St. ♦ Jefferson City, MO 65109

Phone: (573) 298-6080 ♦ **Toll Free:** (800) 270-1271

Email: mpers@mpers.org ♦ **Fax:** (573) 522-6111

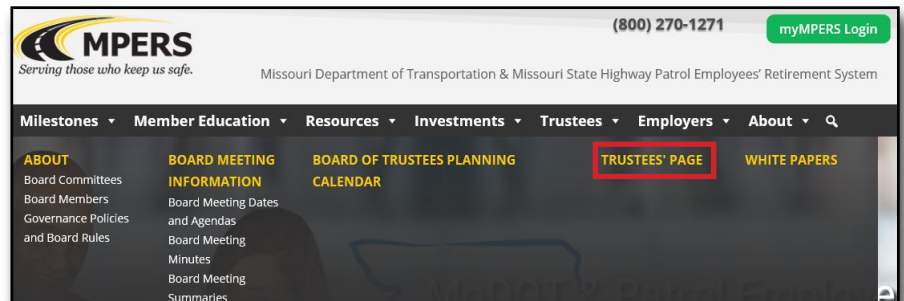
Website: www.mpers.org

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Board meeting materials are posted online **one week** before each meeting.

Go to www.mpers.org

Select Trustees' Page on the Trustee drop down menu



Use the login information previously provided via email to log into the Trustees' Page

Once you are logged in, select the Current Board/Committee Meeting Material link



The Executive Director of MPERS has charge of the office and records of the System and hires such employees deemed necessary, subject to the approval of the Board of Trustees. The System employees 17 full-time staff.

Scott Simon

Executive Director

Scott.Simon@mpers.org

Work: (573) 298-6020

Cell: (573) 230-3021

Greta Bassett-Seymour

Assistant Executive Director and General Counsel

Greta.Bassett-Seymour@mpers.org

Work: (573) 298-6021

Cell: (573) 999-4123

Larry Krummen

Chief Investment Officer

Larry.Krummen@mpers.org

Work: (573) 298-6082

Cell: (573) 619-6541

Jennifer Even

Chief Financial Officer

Jennifer.Even@mpers.org

Work: (573) 298-6022

Cell: (573) 680-6945

Lois Wankum

Senior Executive Assistant

Lois.Wankum@mpers.org

Work: (573) 298-6090

Cell: (573) 680-7129

Board of Trustees

Scott Simon

Executive Director

Barbara Graessle

Senior Administrative Assistant

Lois Wankum

Senior Executive Assistant

Investments

Larry Krummen

Chief Investment Officer

Jennifer Johnson

Investment Manager

Luke Fortson

Investment Analyst

Hannah Wells

Investment Analyst

Financial Services

Jennifer Even

Chief Financial Officer

Lindsey Harris-Funk

Assistant Chief Financial Officer

Member & Legal Services

Greta Bassett-Seymour

Assistant Executive Director and General Counsel

Mary Jordan

Senior Benefit Specialist

Gabrielle Lewis

Benefit Specialist

Julie West

Communications Specialist

Bev Wilson

Benefit Audit Specialist

Angel Backes

Senior Account Technician

Tammy Kroll

Senior Account Technician

Leigh Love

Senior Account Technician

The following firms are retained by the Board of Trustees to serve in professional capacities or provide consultant services. The consultants attend board meetings as needed.



GRS delivers consulting services that combine actuarial valuations and studies with benefit plan design.

Actuarial

Ken Alberts

Actuarial Consultant
Gabriel, Roeder Smith & Co.
Southfield, MI
www.gabrielroeder.com



Mike Winter provides advice and oversight of legislation as it relates to MPERS' retirement benefits.

Legislation

Mike Winter

Governmental Relations Consultant
Michael G. Winters Consultants
Jefferson City, MO



Williams-Keepers provides an annual audit of the accounting and administration of MPERS.

Audit

Nick Mestres

Partner
Williams-Keepers, LLC
Jefferson City, MO
www.williamskeepers.com



Northern Trust manages our assets and provides an extensive trading program to complement our investment objectives.

Custody Services

Colleen Brennan

Client Executive-Vice President
The Northern Trust Company
Chicago, IL
www.northerntrust.com



NEPC identifies the best qualified, most appropriate investment managers in order for MPERS to achieve optimum portfolio performance.

Investments

Kevin Leonard

Partner
NEPC, LLC
Cambridge, MA
www.nepc.com



Bob Charlesworth provides risk management consultation and negotiates insurance covered premiums on behalf of MPERS.

Risk & Insurance

Bob Charlesworth

Owner/Consultant
Charlesworth & Associates, LC
Overland Park, KS
www.charlesworth.net

Benefit	Closed Plan (9/1/1955 - 6/30/2000)	Year 2000 Plan (7/1/2000 - 12/31/2010)	2011 Tier (1/1/2011 - Present)
Type of Plan	Defined benefit (non-contributory)	Defined benefit (non-contributory)	Defined benefit (contributory)
Contributions	Employee - no cost Employer - per actuarial valuation	Employee - no cost Employer - per actuarial valuation	Employee - 4% Employer - per actuarial valuation
Vesting Requirement	5 years	5 years	5 years (if active on or after January 1, 2018)
Normal Retirement Eligibility	- Age 65 with 5 years of service - Age 60 with 15 years of service "Rule of 80" - age 48 with age and service equaling 80 or more	- Age 62 with 5 years of service "Rule of 80" - age 48 with age and service equaling 80 or more	- Age 67 with 5 years of service "Rule of 90" - age 55 with age and service equaling 90 or more
Uniformed Patrol Normal Retirement Eligibility	- Age 55 with 5 years of service "Rule of 80" - age 48 with age and service equaling 80 or more - Mandatory retirement at age 60	"Rule of 80" - age 48 with age and service equaling 80 or more - Mandatory retirement at age 60	- Age 55 with 5 years of service - Mandatory retirement at age 60 (no minimum service)
Base Benefit Formula	Service x 1.6% x Final Average Pay	Service x 1.7% x Final Average Pay	Service x 1.7% x Final Average Pay
Temporary Benefit Formula (payable until age 62)	Not available	Service x .08% x Final Average Pay	Service x .08% x Final Average Pay
Uniformed Patrol hired before 1/1/1995 Special Benefit	\$90 per month until age 65 (stops any month gainfully employed)	Not available	Not available
Early Retirement Eligibility (reduced benefit)	- Age 55 with 10 years of service - Reduced .006 for each month younger than normal retirement	- Age 57 with 5 years of service - Reduced .005 for each month younger than normal retirement	- Age 62 with 5 years of service - Reduced .005 for each month younger than normal retirement
Cost-of-Living Adjustment (COLA) (maximum COLA rate is 5%)	Employed be 8/28/97: - Minimum annual rate is 5% until total increases equal 65% of initial benefit - then it's 80% of the increase in the CPI-U Employed on or after 8/28/97: 80% of the increase in the CPI-U	80% of the increase in the CPI-U	80% of the increase in the CPI-U
BackDROP (must work at least 2 years beyond date first eligible for normal retirement)	Available	Available	Not available

	Long-Term Disability	Work-Related Disability
Benefit Amount	60% of pre-disability salary (reduced by deductible income)	Lesser of: 70% of pre-disability salary (not offset by deductible income) 90% of pre-disability salary (offset by deductible income)
Benefit Waiting Period	Later of: - When sick leave runs out - Member disabled 180 days	Later of: - When sick leave expires - Member reaches maximum medical improvement under Workers' Comp

Reduced to its simplest form, the financial mechanism behind the operation of a defined benefit(DB) plan may be described by the formula:

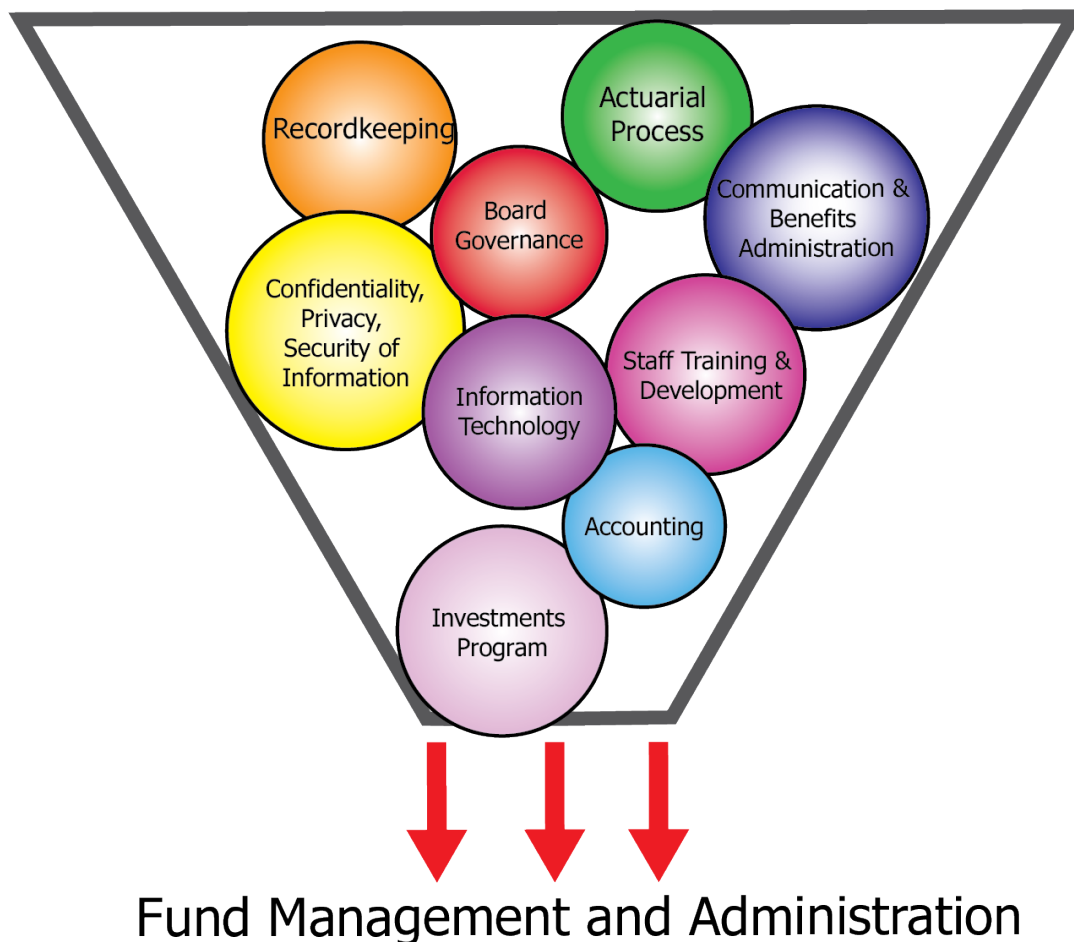
$$C + I = B + E$$

Where:

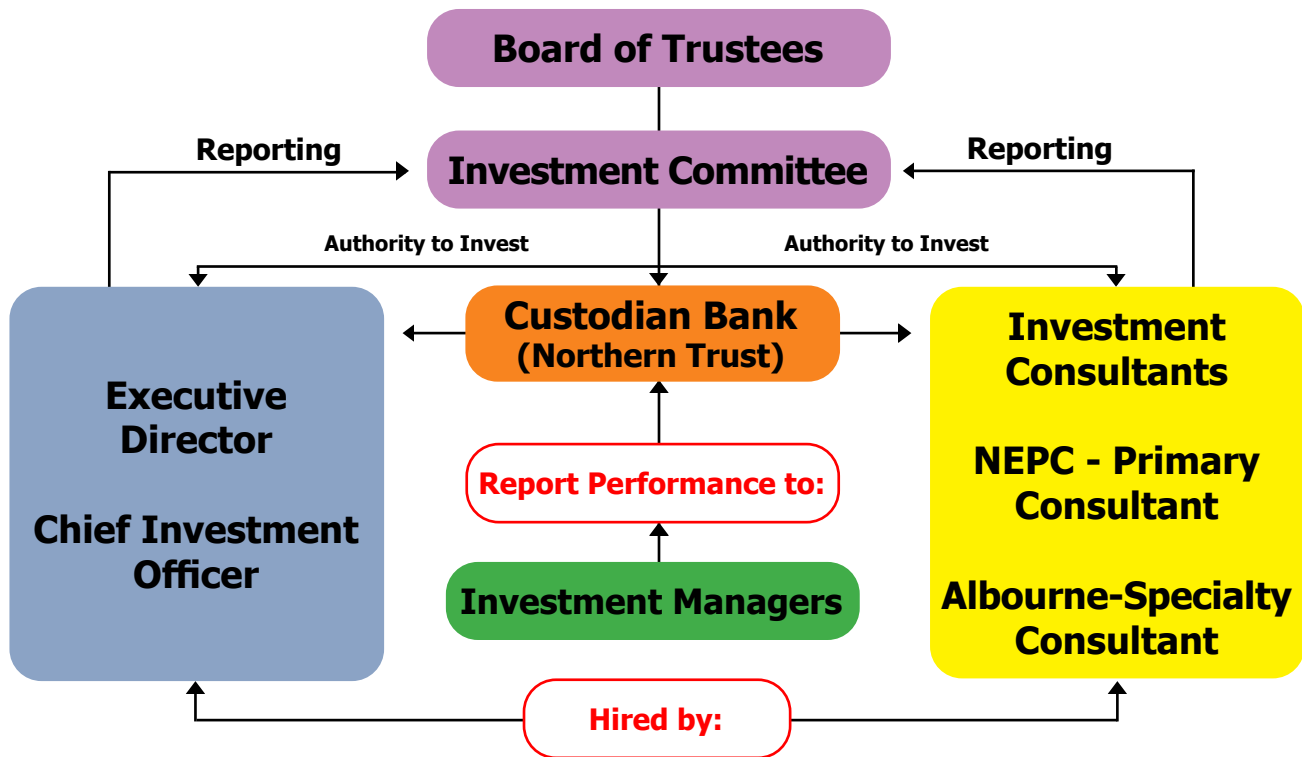
- C = Contributions (employer, employee, or both)
- I = Income from investments
- B = Benefits paid
- E = Expenses for plan administration

An understanding of this formula is very useful for those wishing to understand the basic financial premise of DB plans.

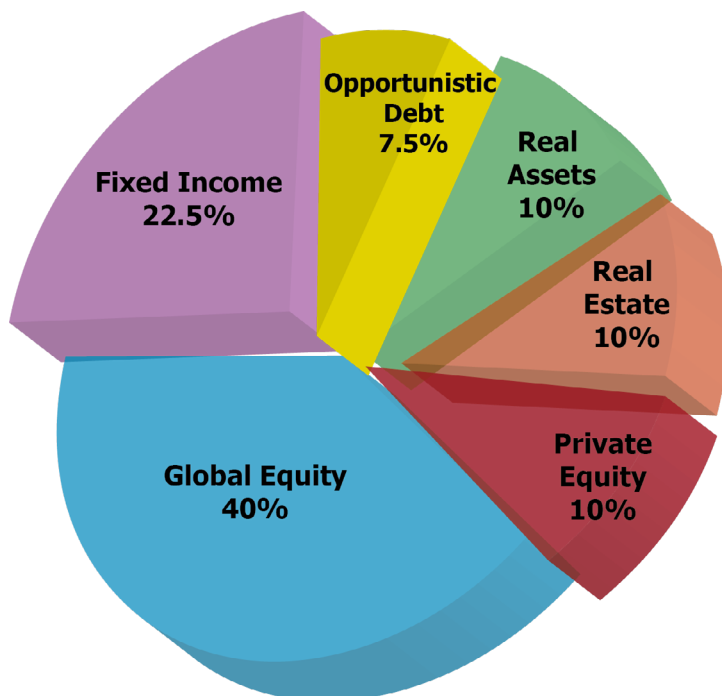
In a DB plan, benefits (B) can be thought of as a moving target. As salary increases and service is extended, (B) becomes larger. Based on complex actuarial calculations, a contribution amount (C) is determined which will allow for the accumulation of the assets needed to pay for (B). (C) will be a variable, based on the plan experience. Consider what happens if (B) is predicted accurately but income (I) is less than expected. The only alternative for bringing the formula back into balance is to increase (C). If (I) is greater than expected, (C) will be reduced. In most cases, the variable (C) is the responsibility of the employer. The employer assumes the risk if (I) is less than expected, and thus must increase contributions, and conversely is rewarded with lower contributions if (I) is greater than expected. This is consistent with the fundamental rule of investing which says that the party taking the risk is the one which receives any rewards.



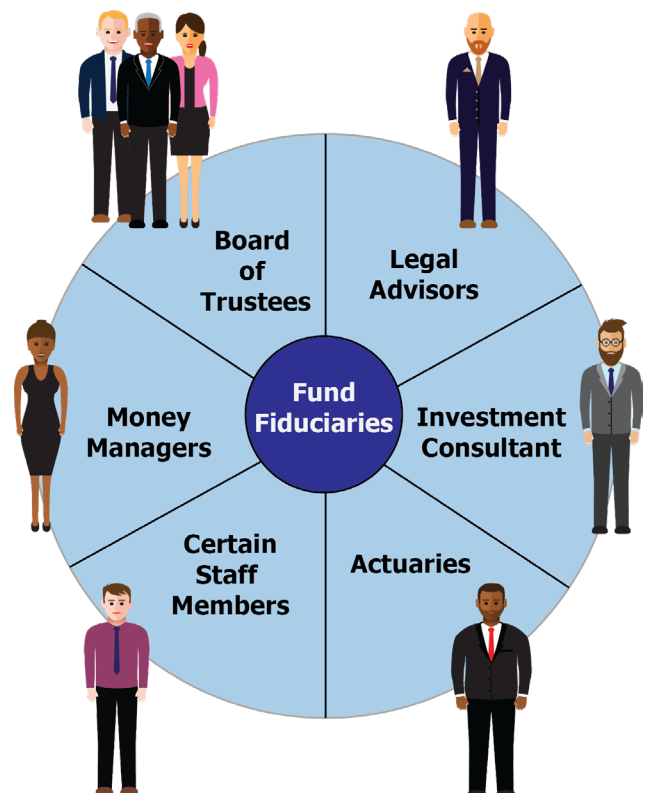
There are many moving parts and relationships in the investment process. The chart below shows the relationships of the various entities and how everyone works together.



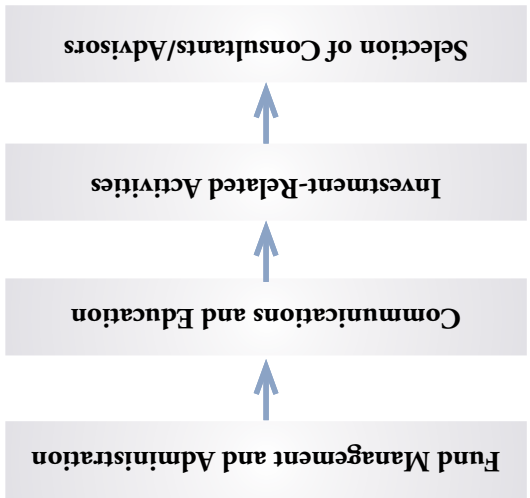
Target Asset Allocation



Investment Fiduciaries



Areas of Fiduciary Responsibility



Good governance is critically important for public pension funds to achieve optimal performance and maintain the confidence of their constituencies. Six principles for effective public pension fund governance have been identified as key to successful governance structures:

- 1. Effective and Capable Fiduciaries** – The Board functions effectively, investments are prudently selected and managed, the fund is operated cost effectively, customer service and operations are high quality, and the fund is reliable as a source of information for pension and benefit choices.
 - 2. Ethical Leaders** – The Board and executive team share values, work together constructively, and set the tone at the top. The Board and staff are free from conflicts of interest and have credibility with regulators and legislators. The Board operates with discipline and is self-policing. There is a culture of compliance with applicable laws, regulations and organizational policies and there are clearly established whistle blower policies and procedures.
 - 3. Open and Accountable to Stakeholders** – The Board and executives are appropriately open in the way key decisions are made and publicly disclosed. The organization structure and processes provide clear lines of authority and responsibility. Effective metrics are used to monitor strategic, investment, operational, financial and compliance results. Executives are accountable for their performance, and their compensation is directly linked to performance outcomes over appropriate time periods that reflect system goals and beneficiaries' short- and long-term interests.
 - 4. Risk Intelligent and Insightful in Decisions** – The Board approves the risk preferences and tolerances of the fund, and ensures the enterprise is prepared for low-probability risks and long-term sustainability. An effective enterprise risk management framework is used to consistently monitor and report aggregated risk exposures and the effectiveness of mitigation and control. The management reporting process provides insight, not just data, to enable the Board to provide appropriate direction and advice to management and fulfill its oversight responsibilities.
 - 5. Long-Term View for the Needs of Beneficiaries and System Participants** – The Board integrates short-term and long-term perspectives on both assets and liabilities to ensure financial soundness and effective retirement solutions for members and employers. The Board is alert to long-term unintended negative consequences of short-term decisions and maintains strategic flexibility to allow for uncertainty.
 - 6. Continuous Learning and Adaptation to Changing Conditions** – The Board conducts a regular assessment of its performance and capabilities. A board self-development plan addresses the continuous learning and development needs for all board members based on a comprehensive and tailored individual development process. Performance feedback is obtained through periodic board self-assessment processes.
- From these principles, leading policies, practices and desired outcomes can be developed, and the principles form the basis for conduct and guide the decision-making and behavior of the board, the executive team and staff. You should see these principles throughout our Governance Policies. It is important that you become familiar with these policies and recognize that they will evolve over time as weaknesses or improvements are realized.

Introduction

The Board of Trustees oversees the general administration of MPERS. While a trustee always exercises his or her discretion independently, the governance of the System is vested in the Board as a body, not in any individual Trustee. The Board has authority to establish its own governance policies and rules for administration of the System.

Legal liability can fall on the System, the Board of Trustees or individual Trustees for the breach of a duty or a violation of law. A Trustee mitigates personal legal risk by devoting sufficient time to carry out his or her duties and responsibilities effectively. This includes time to obtain education regarding MPERS, a Trustee's duties, and all matters pertinent to the administration of public defined benefit pension systems.

Legal risks are defined by duties. Trustees are fiduciaries, and as such, operate under the highest legal duty. MPERS' statute, section 104.150, expressly provides that: "All property, money, funds, investments and rights ..." in the system "... shall be vested in trust for the members and for the purposes" set out in the laws establishing MPERS. Fiduciary duties are established under the statutes and common law of trusts. Trustees also exercise discretion within the framework of specific statutes, rules and policies applicable to the System. In some instances statutes applicable to governmental bodies and public officials generally also apply to the System and to the Trustees and these define duties, obligations and standards of conduct and set consequences violations.

Fiduciary Liability

A fiduciary has a duty of care and a duty of loyalty. The duty of care is commonly framed in the context of the "Prudent Man Rule." This standard states the duty of care as that of a prudent person acting in a similar capacity and who is knowledgeable of the matters that are the subject of the trust relationship. An effective board education program is essential for an MPERS Trustee to assure that he or she acquires the knowledge that the duty of care assumes. An effective board education program mitigates this legal risk.

A Trustee also has a duty of loyalty. Loyalty requires that a Trustee act solely in the best interests of the plan beneficiaries. The duty of loyalty prohibits self-dealing and conflict of interest. Loyalty requires that a Trustee actively avoid placing himself or herself in a position likely to present a conflict of interest. Loyalty also requires that a Trustee act with candor, honesty and integrity. A Trustee must maintain independence and keep informed of operations of the system, laws, regulations, trends and developments affecting the System.

The Trustees execute their duties in large part by selecting and retaining competent management, establishing objectives and policies for the system, monitoring compliance with laws and policies, and overseeing the performance of management. Effective policies should cover all significant activities of the Board and the System and the policies should include monitoring and reporting mechanisms to assure the Board is informed. Policies should also require independent third party review in certain matters with reporting to the Board or a designated committee of the Board.

Statutory Liability

This overview highlights significant statutes but does not address every law that might concern the System, the Board or a Trustee. When particular circumstances arise that present legal issues or the application of statutes, the Board should always consult with counsel.

In some cases statutes explicitly direct MPERS or a Trustee's activities. In other cases general statutes apply to MPERS. In some instances, it will not be clear whether a law applies to a Trustee or to the System. However, a Trustee that adheres to fiduciary standards is not likely to inadvertently violate a statute.

Section 104.210, RSMo, provides that a Trustee who accepts any gratuity or compensation for the purpose of influencing the investment of funds of the system shall forfeit his or her office and be subject to the penalties prescribed for bribery.

Section 610.027 of the "Sunshine Law" carries civil penalties of up to \$5,000 and costs plus attorney fees for purposeful violation of the law. This exposure falls on Trustees in their individual capacity.

Under Chapter 105, starting at section 105.450, conflicts of interest and self-dealing are prohibited. Subsequent provisions require filing of an annual financial disclosure statement with the state ethics commission. Section 105.478 establishes criminal penalties for violation of the conflict of interest laws. MPERS staff annually assists Trustees to meet the filing requirements under this law.

Managing Legal Risk

Trustee education, consulting with legal counsel and adherence to sound fiduciary practices are all practices that mitigate legal risk. There are also other protections and defenses available.

Sovereign Immunity

The doctrine of sovereign immunity precludes lawsuits against the government absent its consent. Missouri has provided only limited waiver of sovereign immunity under section 537.600 related to operation of motor vehicles and condition of property.

Official Immunity

The doctrine of official immunity protects public officials and employees from liability for alleged acts of negligence committed during the course of their official duties for performance of discretionary acts. However, official immunity does not protect from legal risk for ministerial acts.

Legal Representation

MPERS has authority to and has hired a general counsel. MPERS also has authority to hire outside counsel.

State Legal Expense Fund

The State of Missouri self-insures all state agencies, their officials and employees under the State Legal Expense Fund. As such, in the event of a lawsuit, the Attorney General can represent MPERS. Depending on the nature of the claims made and the outcome, the State Legal Expense Fund may or may not cover any liability incurred by MPERS or the Trustees as a result of the lawsuit (i.e., damages owed to the other party). In the event a Trustee is found to be negligent in their duties, any related damages would not be covered by the State Legal Expense Fund.

Insurance Coverage

MPERS carries property, casualty and liability insurance coverage related to its building and automobile. MPERS has also purchased staff and directors & officers insurance coverage to cover liability that may occur as a result of Board and staff actions.

MPERS self insures for any other legal risks as noted in the Indemnity Governance Policy.

MPERS provides workers compensation coverage through an arrangement with MoDOT pursuant to section 104.175.

Acronyms for Industry Organizations

GFOA – Government Finance Officers Association

Website: www.gfoa.org

IFEBP – International Foundation of Employee Benefit Plans

Website: www.ifebp.org

JCPER – Joint Committee on Public Employee Retirement

Website: www.jcper.org

MAPERS – Missouri Association of Public Employee Retirement Systems

Website: www.momapers.org

NAPPA – National Association of Public Pension Attorneys

Website: www.nappa.org

NASRA – National Association of State Retirement Administrators

Website: www.nasra.org

NCPERS – National Conference on Public Employee Retirement Systems

Website: www.ncpers.org

NIRS – National Institute on Retirement Security

Website: www.nirsonline.org

Introduction

A Board of Trustees administers MPERS. Statutes charge the trustees with the duty to manage the affairs of the System and safekeeping and investment of plan assets. The trustees are subject to the general law of trusts (both statutes and common law). Section 104.150 expressly vests MPERS plan assets “in trust” for the members. The Attorney General in Opinion No. 91-1980 (relating to MOSERS) ruled the Trustees are bound by the general law of trusts. Finally, Missouri’s Trust Code (at sections 456.011 and 456.013) recognizes that real and personal property, and the income, held in pension plans for the exclusive benefit of employees are trust funds (exempting such trusts from laws against perpetuities and permitting the accumulation of income). Section 105.688 (a general statute applicable to public retirement systems in Missouri) establishes a fiduciary investment standard for plan assets.

Fiduciary Duties

The general law of trusts imposes several duties on trustees. The duty of care includes exercising appropriate skill, care, and prudence in administering the trust and investing trust assets. The duty of loyalty prohibits a trustee from acting contrary to the interests of the beneficiaries of the trust and from placing himself or herself in a position where a conflict of interest might arise.

Additional duties, subsets of the duty of loyalty, include a duty to segregate and account for trust assets, a prohibition from doing business with the trust or appropriating trust assets, a duty to act impartially toward all beneficiaries, and a duty to make trust assets productive.

Missouri has codified many of the standards and practices applicable to fiduciaries in Chapter 469. Of note is the Prudent Investor Act at sections 469.900 through 469.913. This Act is attached and incorporated by reference to this statement. The Act should be read in conjunction with section 105.688, the retirement system’s fiduciary investment standard, which is also included (page 14).

Prudent Investor Act

Citation of law--definitions.

469.900. Sections 469.900 to 469.913 shall be known, and may be cited, as the “Missouri Prudent Investor Act.” As used in this act, the term “trustee” includes independent personal representatives and trustees, whether of express or implied trusts, and the term “trust” includes independently administered estates.

Trustee duties, settlor may restrict or expand.

469.901. 1. Except as otherwise provided in subsection 2 of this section, or by other applicable laws, a trustee who invests and manages trust assets owes a duty to the beneficiaries of the trust to comply with the prudent investor rule set forth in this act**. 2. A settlor may expand or restrict the prudent investor rule detailed in this act** by express provisions in the trust instrument. A trustee is not liable to a beneficiary for the trustee’s good faith reliance on these express provisions.

**”This act” (H.B. 1432, 1996) contained numerous sections. Consult Disposition of Sections Table for a definitive listing.

Trustee duties and powers--decisions to be evaluated in context of trust.

469.902. 1. A trustee shall invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill, and caution. 2. A trustee’s investment and management decisions respecting individual assets and courses of action must be evaluated not in isolation but in the context of the trust portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the trust. 3. When investing and managing trust assets, a trustee shall consider the following as are relevant to the trust or its beneficiaries:

- (1) General economic conditions;
- (2) The possible effect of inflation or deflation;
- (3) The expected tax consequences of investment decisions or strategies;
- (4) The role that each investment or course of action plays within the overall trust portfolio;
- (5) The expected total return from income and the appreciation of capital;
- (6) Other resources of the beneficiaries known to the trustee;
- (7) Needs for liquidity, regularity of income, and preservation or appreciation of capital;
- (8) An asset’s special relationship or special value, if any, to the purposes of the trust or to one or more of the beneficiaries; and
- (9) The size of the portfolio, nature and estimated duration of the fiduciary relationship and distribution requirements under the governing instrument.

4. A trustee shall make a reasonable effort to ascertain facts relevant to the investment and management of trust assets.
 5. A trustee may invest in any kind of property or type of investment consistent with the standards of this act**.
 6. A trustee who has special skills or expertise, or is named trustee in reliance upon the trustee's representation that the trustee has special skills or expertise, has a duty to use those special skills or expertise when investing and managing trust assets.
- **"This act" (H.B. 1432, 1996) contained numerous sections. Consult Disposition of Sections Table for a definitive listing.

Diversification required, exception.

469.903. A trustee shall diversify the investments of the trust unless the trustee reasonably determines that, because of special circumstances, the purposes of the trust are better served without diversifying.

Trust assets, retention and disposition.

469.904. Within a reasonable time after accepting a trusteeship or receiving trust assets, a trustee shall review the trust assets and make and implement decisions concerning the retention and disposition of assets in order to bring the trust portfolio into compliance with the purposes, terms, distribution requirements, and other circumstances of the trust, and with the requirements of this act**.

**"This act" (H.B. 1432, 1996) contained numerous sections. Consult Disposition of Sections Table for a definitive listing.

To whom duty owed.

469.905. A trustee shall invest and manage the trust assets solely in the interest of the beneficiaries.
(L. 1996 H.B. 1432, A.L. 2004 H.B. 1511)

Multiple beneficiaries, duty owed to whom.

469.906. If a trust has two or more beneficiaries, the trustee shall act impartially in investing and managing the trust assets, taking into account any differing interests of the beneficiaries.

Restriction on costs.

469.907. In investing and managing trust assets, a trustee may only incur costs that are appropriate and reasonable in relation to the assets, the purposes of the trust, and the skills of the trustee.

Prudent investor rule, standard.

469.908. The prudent investor rule imposes a standard of conduct, but does not contemplate a specific outcome or performance. Compliance with the prudent investor rule is determined in light of the facts and circumstances existing at the time of a trustee's decision or action and not by hindsight.

Trustee powers, delegation--agent duties--liability of agent--agent submits to jurisdiction, when.

469.909. 1. A trustee may delegate investment and management functions that a prudent trustee of comparable skills could properly delegate under the circumstances. The trustee shall exercise reasonable care, skill, and caution in:

- (1) Selecting an agent suitable to the exercise of the delegated function, taking into account the nature and the value of the assets subject to such delegation and the expertise of the agent;
- (2) Establishing the scope and terms of the delegation, consistent with the purposes and terms of the trust; and
- (3) Periodically reviewing the agent's actions in order to monitor the agent's performance and compliance with the terms of the delegation.

2. In performing a delegated function, an agent owes a duty to the trust to exercise reasonable care to comply with the terms of the delegation.

3. A trustee who complies with the requirements of subsection 1 of this section is not liable to the beneficiaries or to the trust for the decisions or actions of the agent to whom the function was delegated.

4. By accepting the delegation of a trust function from the trustee of a trust that is subject to the law of this state, an agent submits to the jurisdiction of the courts of this state even if the delegation agreement provides otherwise.

Trust terms and phrases, definition.

469.910. The following terms or comparable language in the provisions of a trust, unless otherwise limited or modified, authorize any investment or strategy permitted under this act**: “investments permissible by law for investment of trust funds”, “legal investments”, “authorized investments”, “using the judgment and care under the circumstances then prevailing that persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital”, “prudent man rule”, “prudent trustee rule”, “prudent person rule”, and “prudent investor rule”.

**”This act” (H.B. 1432, 1996) contained numerous sections. Consult Disposition of Sections Table for a definitive listing.

Applicability of certain sections.

469.911. Except as otherwise specifically provided in the terms of the trust or in sections 456.035 to 456.041, RSMo, and sections 469.900 to 469.913, the provisions of sections 456.035 to 456.041, RSMo, and sections 469.900 to 469.913 shall apply to any trust established before or after August 28, 2004, and to any trust asset acquired by the trustee before or after August 28, 2004.

Interpretation of certain sections.

469.912. This act** shall be applied and construed to effectuate its general purpose to make uniform the law with respect to the subject of this act** among the states enacting it.

**”This act” (H.B. 1432, 1996) contained numerous sections. Consult Disposition of Sections Table for a definitive listing.

Specific statutory standards to control.

469.913. The general assembly recognizes that persons, corporations, entities or state agencies who have responsibility for investing funds may be subject to a standard that is specifically set forth in other statutes. Under such circumstances, such persons, corporations, entities or state agencies shall comply with the standard of investment set forth in the other statute, and this act** shall not modify or repeal that standard.

**”This act” (H.B. 1432, 1996) contained numerous sections. Consult Disposition of Sections Table for a definitive listing.

Investment fiduciaries, duties.

105.688. The assets of a system may be invested, reinvested and managed by an investment fiduciary subject to the terms, conditions and limitations provided in sections 105.687 to 105.689. An investment fiduciary shall discharge his or her duties in the interest of the participants in the system and their beneficiaries and shall:

- (1) Act with the same care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims;
- (2) Act with due regard for the management, reputation, and stability of the issuer and the character of the particular investments being considered;
- (3) Make investments for the purposes of providing benefits to participants and participants’ beneficiaries, and of defraying reasonable expenses of investing the assets of the system;
- (4) Give appropriate consideration to those facts and circumstances that the investment fiduciary knows or should know are relevant to the particular investment or investment course of action involved, including the role of the investment or investment course of action plays in that portion of the system’s investments for which the investment fiduciary has responsibility. For purposes of this subdivision, “appropriate consideration” shall include, but is not necessarily limited to a determination by the investment fiduciary that a particular investment or investment course of action is reasonably designed, as part of the investments of the system, to further the purposes of the system, taking into consideration the risk of loss and the opportunity for gain or other return associated with the investment or investment course of action; and consideration of the following factors as they relate to the investment or investment course of action:
 - (a) The diversification of the investments of the system;
 - (b) The liquidity and current return of the investments of the system relative to the anticipated cash flow requirements of the system; and
 - (c) The projected return of the investments of the system relative to the funding objectives of the system;
- (5) Give appropriate consideration to investments which would enhance the general welfare of this state and its citizens if those investments offer the safety and rate of return comparable to other investments available to the investment fiduciary at the time the investment decision is made.

Summary of the Sunshine Law

Missouri's commitment to openness in government is clearly stated in section 610.011 of the Sunshine Law: "It is the public policy of this state that meetings, records, votes, actions, and deliberations of public governmental bodies be open to the public unless otherwise provided by law. Sections 610.010 to 610.200 shall be liberally construed and their exceptions strictly construed to promote this public policy."

The law sets out the specific instances when a meeting, record or vote may be closed, while stressing these exceptions are to be strictly interpreted to promote the public policy of openness.

Public meetings, including meetings conducted by telephone, Internet or other electronic means, are to be held at reasonably convenient times and must be accessible to the public. Meetings should be held in facilities that are large enough to accommodate anticipated attendance by the public and accessible to persons with disabilities.

Top 10 Things to Know

1. When in doubt, a meeting or record of a public body should be opened to the public.
2. The Sunshine Law applies to all records, regardless of what form they are kept in, and to all meetings, regardless of the manner in which they are held.
3. The Sunshine Law **allows** a public body to close meetings and records to the public in some limited circumstances, but it **almost never requires** a public body to do so.
4. A public body generally must give at least 24 hours' public notice before holding a meeting. If the meeting will be closed to the public, the notice must state the specific provision of the law that allows the meeting to be closed.
5. Each public body must have a written Sunshine Law policy and a custodian of records whose name is available to the public upon request.
6. The Sunshine Law requires a custodian of records to respond to a records request as soon as possible but no later than **three business days** after the custodian receives it.
7. The Sunshine Law deals with whether a public body's records must be open to the public, but it generally does not state what records the body must keep or for how long. A body cannot, however, avoid a records request by destroying records after it receives a request for those records.
8. The Sunshine Law requires a public body to grant access to open records it already has, but it does not require a public body to create new records in response to a request for information.
9. When responding to a request for copies of its records, the Sunshine Law limits how much a public body can charge for copying and research costs.
10. There are special laws and rules that govern access to law enforcement and judicial records.

Missouri Sunshine Law Website: www.ago.mo.gov/missouri-law/sunshine-law

In 1955, Senate Bill 66 was passed, and the Highway Employees' and Highway Patrol Retirement System (HEHPRS) was established. Senate Bill 66 became effective August 29, 1955. On October 1, 1955, the system accepted 109 retirements.

Legislation to grant retirement benefits to long-term employees was the result of work done by some industrious employees of the State Highway Commission, the State Highway Patrol, and the Highway Employees' Association. Those involved negotiated an arrangement with the State Highway Commission to forego a future employee raise in order to fund the first contributions of the retirement system. In the initial negotiations, it was agreed that the new retirement system would be funded by contributions from the employees of the State Highway Commission and Missouri State Highway Patrol and by contributions from the two agencies. The initial contribution rate for both employees and employers was four percent.

In the late 1970s, legislation was passed to make the retirement system non-contributory for members, with the only contributions being made by the Highway Commission and Highway Patrol. With the exception of the 2011 Tier, the System remains non-contributory for employees today.

The System's Board of Trustees identified in the original legislation consisted of the:

- Members of the State Highway Commission
- Chief Engineer of the Highway Department
- Superintendent of the State Highway Patrol

In 1955, the State Highway Commission consisted of four members with the state geologist being an ex-officio member of the Board. Additional legislative changes were made in 1965, 1981, 1988, 1992, and 1999 – resulting in the current board structure.

Today, the 11-member board is made up of:

- Three Missouri Highways and Transportation Commissioners
- The Director of the Missouri Department of Transportation (MoDOT)
- The Superintendent of the Missouri State Highway Patrol (MSHP)
- A state representative
- A state senator
- An active MoDOT employee
- An active MSHP employee
- A retired MoDOT employee
- A retired MSHP employee

For the first 35 years of its existence, the System was operated as a unit of the State Highway Commission. Highway staff was assigned on a part-time basis to carry out the System's business.

In 1988, the first executive director position was established. As the membership base and the assets of the System grew, it became clear that full-time staff would be required to provide continuity and direction to improve and advance the System. Since that time, numerous staff positions have been added. Today, the System employs 17 full-time staff.

Today, the system operates as an independent trust fund under the direction of the Board of Trustees. In August 2002, a building was purchased to provide a permanent home for the retirement system. This step was taken to ensure the system could provide a comfortable, accessible environment for members to meet with staff to discuss their benefits.

The System is now known as the MoDOT and Patrol Employees' Retirement System (MPERS) and provides retirement, survivor, and disability benefits to over 18,000 members.

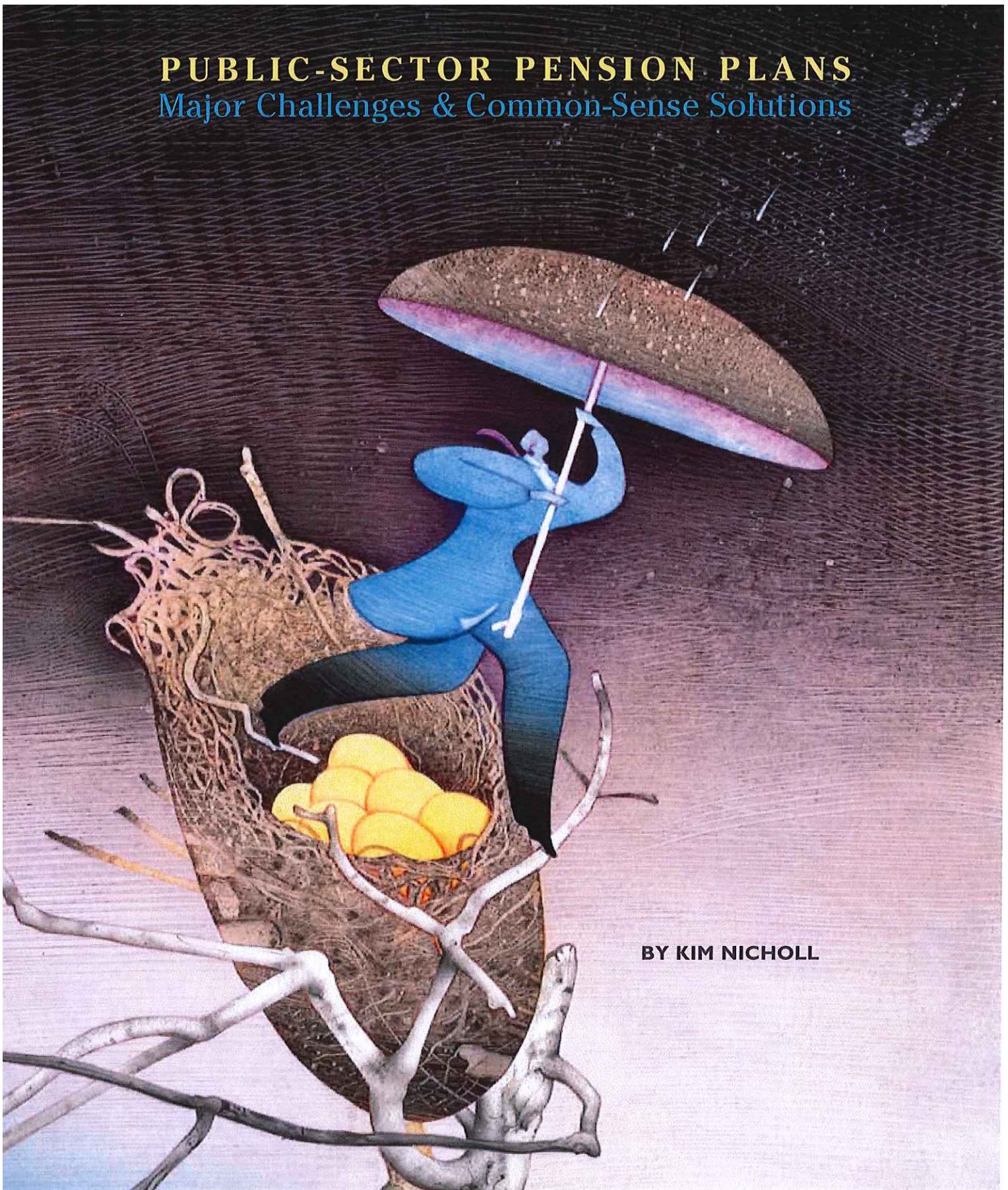
August 29, 1955	Senate Bill 66 created the Highway Employees' and Highway Patrol Retirement System. According to Section 8 of SB 66, the Board of Trustees consisted of: • The members of the State Highway Commission • The Chief Engineer of the Highway Department • Superintendent of the State Highway Patrol In 1955, the State Highway Commission consisted of 4 members, with the State Geologist being a member ex-officio (Section 226.030, RSMo 1949). As a result, the first Board of Trustees had 7 members.
October 13, 1965	House Bill 355 changed the membership of the State Highway Commission by adding 2 additional members and removing the State Geologist. As a result of this bill, the Board of Trustees increased to 8 members.
May 12, 1981	House Committee Substitute for House Bill 835, 53, 591, and 830 passed in 1981. The Board of Trustees was changed by adding one member from the House, one member from the Senate, one member elected by the active employees of the State Highway and Transportation Department, and one member elected from the active employees of the civilian or uniformed highway patrol. The 4-year terms of the 2 elected members started July 1, 1982. As a result, the Board had 10 members after May 12, 1981 and 12 members after July 1, 1982.
August 13, 1988	When Senate Committee Substitute for House Committee Substitute for House Bill 1643 and 1399 passed in 1988, the membership of the Board was changed by reducing the number of members from the State Highways and Transportation Commission from 6 to 3 members. Although the bill was effective in August 1988, the reduction of Commission members was not to happen until January 1, 1989. As a result, the Board had 12 members until January 1, 1989 and 9 members after January 1, 1989.
August 28, 1992	Conference Committee Substitute for House Committee Substitute for Senate Committee Substitute for Senate Bill 499, 576, and 639 added a member elected from the retired membership. The first term for the new retiree member ran from January 1, 1993 to June 30, 1994. Beginning July 1, 1994, the term of the retiree member changed to 4 years and coincided with the terms of the elected active employee members. There were 9 members on the Board until January 1, 1993 and then 10 members afterward.
August 28, 1999	Senate Bill 268 removed the Chief Engineer from the Board and added the Director of the Department of Transportation. The number of members on the Board remained at 10.
August 28, 2004	Statutorily changed name to Missouri Department of Transportation and Highway Patrol Employees' Retirement System (MPERS)
August 28, 2007	House Committee Substitute for Senate Bill 127 passed in 2007, adding a retired Highway Patrol representative. Initial term will begin January 1, 2008 and end June 30, 2010 – then it goes to full 4-year terms starting July 1, 2010. This makes 11 members on the Board.

August 13, 1988	Position of full-time Executive Director established to administer the system in lieu of the Highway and Transportation Commission secretary.
October 1, 1997	Board hired Rothschild Asset Management. This represented the first time MPERS employed an investment manager other than United Missouri Bank (UMB).
October 1, 2001	Transferred 5 employees from MoDOT payroll to MPERS payroll.
November 28, 2001	MPERS hired the first Assistant Executive Director
June 14, 2002	MPERS purchased building at 1913 William Street
January 1, 2003	Hired Northern Trust as custodial bank
December 1, 2003	MPERS hired the first Chief Investment Officer (CIO)
July 1, 2004	Contracted with Standard Insurance Company for handling of LTD and work-related disability claims
January 1, 2005	MPERS hired the first in-house General Counsel
February 1, 2006	MPERS hired the first Senior Financial Officer
September 28, 2006	Board adopted permanent funding policy (<i>Total contribution based on normal cost plus a 29-year amortization period for unfunded liabilities. The financing period is a closed period starting July 1, 2007.</i>)
September 27, 2007	MPERS hired the first Senior Investment Officer
September 17, 2009	Board adopted a temporary accelerated funding policy to address the underfunding situation (<i>15-year amortization period for unfunded retiree liabilities and 30-year amortization period for other unfunded liabilities</i>)
September 25, 2014	Board established the Rate Stabilization Reserve Fund to further reinforce funding, and protect against higher contribution rates in the future.

PUBLIC-SECTOR PENSION PLANS

Major Challenges & Common-Sense Solutions

BY KIM NICHOLL



Ensuring that state and local pension plan funding will be adequate to support promised benefits is a critical task for policymakers. Assessing funding adequacy starts with having a reliable measure of the plan's cost, in both the short and long term. For a defined benefit pension plan, an actuarial funding policy determines the ultimate cost of the plan and how much of that cost should be contributed in the current year. Then, if actual contributions are less than the actuarially determined cost, at the most basic level two options are available: 1) reduce the cost of pensions by restructuring benefits, and/or 2) increase the amount that public employers (i.e., taxpayers) and/or employees contribute to the plan. In some jurisdictions, modest changes in benefits or contributions will be sufficient to fill the gap, but in others, often where unfunded liabilities are large, more substantial revisions will be required.

ACHIEVING BALANCE

Stakeholders have different priorities and will naturally advocate reforms that reflect those priorities. Taxpayer organizations tend to focus more on paring back pension benefits in order to reduce pension costs, while employee groups, concerned about their ability to achieve a secure retirement, often prioritize increased plan funding.

A balanced approach is more likely to achieve success than an either-or proposition. Each group of public pension stakeholders has legitimate objectives. Taxpayer concerns about the affordability of pension benefits and employee concerns about having sufficient retirement income are both valid. And both groups should share an interest in seeing that sound pension funding principles are being followed. Beyond these considerations, public employers have their own workforce management objectives — they want to ensure that the pension benefit, as part of an overall compensation package, supports their efforts to hire and retain talented employees. If they are to address the needs of all parties in the long term, reform efforts must take all these priorities into consideration.

The best way to achieve balance among stakeholder priorities is to align the policies governing pension funding and

pension benefits with broad public policy goals, rather than narrow interests. These goals might include transparency, budgetary predictability, benefit affordability, retirement security, intergenerational equity, and the provision of high-quality public services. While it might seem impossible to meet all these objectives simultaneously, policymakers can rely on some common-sense principles to maximize their chances of achieving balance among competing aims.

A COMMON-SENSE APPROACH

Before delving into the details of pension funding policy, it is important to clarify that state and local pensions are pre-funded, as opposed to pay-as-you-go retirement systems like Social Security. In pay-as-you-go systems, contributions from current employees are used to pay benefits for current retirees. In pre-funded systems, the employer and employee make contributions into a pension trust each year, over the

course of an employee's working life. That money is invested and earnings on these funds are re-invested. By the time the employee reaches retirement, the accumulated assets in the trust are available to pay benefits. The objective, of course, is to accumulate sufficient assets to pay the benefits over the remainder of the employee's life, and any beneficiary's life as well.

To meet this objective, a pension plan should receive contributions in accordance with an actuarially based funding policy. The funding policy determines exactly how much the employer and employee should contribute each year to ensure that the benefits being earned will be securely funded in a systematic fashion.

A comprehensive and actuarially well-designed funding policy supports three key policy goals: predictable costs for employers, secure benefit payments for members, and intergenerational equity across different groups of taxpayers.

Predictable Costs for Employers. If pension contributions fluctuate wildly from one year to the next, the result is budget chaos. That creates problems for all stakeholders. Thus, a funding policy should be purposely designed to develop costs that are expected to bear a reasonable relation-

Assessing funding adequacy starts with having a reliable measure of the plan's cost, in both the short and long term.

ship to payroll and to manage and control contribution volatility. A comprehensive funding policy has several moving parts, including an actuarial cost method, asset-smoothing techniques, and the manner in which any unfunded liabilities are amortized. A plan's specific choices for each of these policy components will have a bearing on whether employer pension contributions will be more predictable or more volatile. In addition, contributions must be based on actuarial assumptions, both demographic and economic, that reflect the best possible estimates of future experience.

The actuarial cost method refers to the manner in which the total present value of all future benefits for current active participants is allocated to each year of service. Asset-smoothing techniques are a tool used to manage the effect of investment volatility on contributions and to provide a more consistent measure of plan funding over time. Financial markets have considerable short-term volatility, but pension plans have long investment and benefit horizons. Asset-smoothing methods are used to reduce the effect of that short-term market volatility on contributions, while still tracking the changes in the market value of plan assets. They do this by recognizing the effects of investment gains and losses over a period of years, instead of immediately when they occur. Amortization of unfunded liabilities refers to the manner in which the current and future unfunded liabilities are systematically funded, or "paid off," over time.

While a detailed review of these complex issues is beyond the scope of this article, it is important to note the following general rules.¹ The "entry age normal" actuarial cost method tends to recognize actuarial liabilities sooner and tends to result in a more stable normal cost pattern over time, as compared with other methods (such as the "projected unit credit" method). Determining the ideal asset-smoothing policy involves a balance between controlling market volatility (by using longer smoothing periods) and making sure the smoothed asset value maintains a reasonable relationship to the actual market value. Amortizing unfunded liabilities involves balancing the two goals of ensuring fairness across generations of taxpayers

and controlling contribution volatility for plan sponsors. Amortizing unfunded liabilities over longer periods will lead to less volatility in contributions, but excessively long periods may inappropriately shift costs to future generations. Plan sponsors must find a balance between controlling contribution volatility and ensuring that costs are not unfairly shifted to future generations of taxpayers.

Secure Benefit Payments for Members. The plan exists to pay benefits. For that reason, funding policies are designed to accumulate assets over time that will provide for all the benefits that have been and will be earned by plan participants. An actuarially determined funding policy generally supports this goal.

In some instances, employers' annual contribution rates are fixed by statute or otherwise not determined by strict adherence to a funding policy. Fixed contributions have the benefit of being very predictable, but they can pose risks by falling short of the actuarially determined needs of the pension plan, increasing unfunded liabilities. This is especially true when the plan has a limited ability to adjust benefits. Even in cases where the contribution rate, as originally established, was actuarially determined, changes in the plan or plan experience (e.g., benefit improvements, mortality improvements, and/or asset losses) can cause the fixed contribution rate to become insufficient for the plan to achieve its goal of paying all benefits when due. The result could be a rapid, unexpected escalation in actuarially required contributions, thereby adding to the employer's fiscal commitments.

Intergenerational Equity across Groups of Taxpayers.

The goal of fairly sharing plan costs across generations of taxpayers is achieved by adopting a funding policy that ensures that the cost of pension benefits is reasonably allocated to the years of service worked by employees. A funding policy can help ensure that the cost of benefit improvements is recognized and paid for during the working careers of those who will receive them, without unfairly burdening the current taxpayers for events beyond their control.

The best way to achieve balance among stakeholder priorities is to align the policies governing pension funding and pension benefits with broad public policy goals, rather than narrow interests.

As noted previously, the objective of intergenerational equity provides a “check” to ensure that the goal of predictable contributions does not override all other concerns. Longer asset-smoothing and amortization periods help reduce contribution volatility, but by doing so, current taxpayers may be deferring costs to future generations of taxpayers. A balanced funding policy will find a “sweet spot” between these two important policy goals.

Once the plan sponsor has established the elements of a comprehensive funding policy and put it into effect, stakeholders should be able to understand the cost of pension benefits and develop a realistic plan for paying those costs over time. In many cases, stakeholders will be reassured about the path they have been following to meet future commitments. But sometimes, pension trustees, employers, and/or policymakers may discover that the commitments they have made in the past are not enough, and the plan will require greater contributions. Still others may find that their commitments are no longer affordable when considered in the context of the overall state or local budget and that benefits need to be reevaluated. In any of these scenarios, officials may also conclude that having a comprehensive statement of their funding policy in a single document is advantageous. A well-conceived funding policy can do more than ensure a well-funded plan — it can enlighten benefit policy.

COST — AND OTHER — CONSIDERATIONS

In the current environment, state and local governments’ reexamination of their pension programs is being driven primarily by cost considerations. But there are other good reasons to review pension benefit policy periodically. These include assessing how economic risks are shared between employers and employees, reviewing the extent to which benefits provide an adequate retirement income, and ensuring that the plan is still meeting the workforce management goals of the employer, including employee attraction, retention, and retirement patterns.

State and local officials nationwide are focused overwhelmingly on the question of whether existing pension plans are affordable or sustainable, given new fiscal realities. There are many ways to achieve the goal of reducing pension costs, but some changes have a greater impact than others. Shorthand images or metaphors can help when ranking or



prioritizing changes according to their financial impact. For example, changes with the largest impact on cost can be thought of as “boulders.” These might include eliminating cost of living adjustments or changing the basic design of benefits. Changes with large but less significant effects are “rocks.” This category could include reforms such as modifying cost of living adjustments, increasing retirement ages, and changing eligibility rules or benefit formulas for current and future employees. Modest-impact changes can be thought of as “pebbles,” and those with the smallest effects, “sand.” Increasing the final average salary period use for calculating benefits from three or five years to five or seven years would fall into this category, as would reductions to disability and death benefits. Stakeholders can use this imagery to help them stay focused on changes that will make a real difference, and avoid being unduly distracted by modifications that might not ultimately address the core question of affordability.

DISTRIBUTION OF RISK

The type of retirement plan offered — a traditional defined benefit pension plan, a defined contribution savings plan, or a hybrid plan, which combines elements of DB and DC plans — has great bearing on how risks are distributed. Indeed, recent economic events have reminded employers

that investment risk and the resulting contribution volatility risk have significant economic consequences.

DB and DC plans differ in how they allocate risks, including investment risk, inflation risk, contribution risk, and longevity risk. Under a DB plan, the employer bears the bulk of these risks. For example, if life expectancy increases, employer contributions will need to increase as well to cover the benefit payments for longer periods.² Under a DC plan, the employee bears these risks while the employer may be exposed to other risks, particularly workforce management. If investment earnings fall short of expectations, employees will need to save more, delay their retirement, and/or modify their standard of living during retirement.

Hybrid plans are designed to share risks between employers and employees by incorporating aspects of capital-accumulation (DC) and income-replacement (DB) plans. In the public sector, hybrid plans are typically structured as combination plans in which employees earn a portion of their retirement benefit in a DB plan and also participate in a DC plan. Generally, the employer bears the risks for the DB portion of a hybrid plan and the employee bears the risks for the DC portion.



Stakeholders may find it worthwhile to evaluate whether these risks are in their proper place and determine whether redistributing some of these risks is appropriate. This involves assessing which risks the plan or employers are in the best position to manage, and which ones employees can handle. Employees, with no opportunity to “pool” risk, may not be in the best position to bear the full brunt of investment, inflation, and — especially — longevity risks. There is also the matter of degree. For instance, employees might be able to bear some amount of contribution risk, but not all of it. A comprehensive benefit policy examines all aspects of risk and where it is most appropriately placed.

Benefit Adequacy. Even though the stark fiscal environment is pushing cost and risk considerations to the forefront, stakeholders need to keep sight of benefit adequacy. After all, the goal of a retirement plan is to allow employers to attract and retain talent at a reasonable cost to the taxpayer by providing some level of retirement security to employees as part of a total compensation package.

The “correct” benefit level should be based on objective analysis and subjective considerations. Benefit adequacy is typically assessed by calculating a “replacement ratio,” dividing the amount of retirement income a career employee would receive from the plan and from other income sources by the employee’s income just prior to retirement. Determining the “correct,” or target, replacement ratio involves some subjective calls such as defining a career employee and determining the age at which the target should be set. In addition, plan sponsors need to consider how the target should be set for public safety employees, given their unique work environment and demands. Another important consideration in evaluating benefit adequacy is the availability and cost of health care in retirement.

A study conducted as part of Georgia State University’s Center for Risk Management and Insurance Research’s Retiree Income Replacement Project suggests that, as workers’ pre-retirement income ranges upward from \$20,000 to \$90,000, they will need a 94 percent to 78 percent replacement ratio to maintain a similar lifestyle in their post-retirement years.³ Social Security replaces 69 percent to 36 percent of pre-retirement compensation at these income levels. Therefore, the remainder needs to come from employer-sponsored pensions, employer-sponsored retirement savings plans, and

personal savings. For those public-sector employees who aren't covered by Social Security (approximately 30 percent of the state and local government workforce),⁴ the need for retirement income from an employer-sponsored plan and personal savings is greater, a fact that must be taken into consideration when setting benefit policy.

Workforce Management Considerations. Employers offer benefit plans because such programs have been shown to aid in workforce management, supporting recruitment, retention, and the orderly retirement of employees. In general, employers can use plans that are designed to offer employees a more predictable benefit to accomplish workforce management goals, which include attracting experienced employees from the private sector, retaining talent, or facilitating orderly turnover through predictable retirements.

Nevertheless, the implications of plan type on workforce management are sometimes overlooked. Conversely, changes in the workforce or in HR management objectives might prompt a reexamination of plan design to ensure that it is consistent with overall HR strategy.

DB plan features can be used to encourage recruitment, retention, or retirement. Workforce management is more difficult with DC plans because account balances fluctuate with the financial markets, which can influence the timing of retirement beyond the control of the employer. In addition, the employer has little ability to encourage retirement through incentives if the existing DC plan balance will not support retirement income needs.

Careful planning and quality analysis are the keys to designing a successful benefit policy. Making changes in a kneejerk fashion in response to the immediate budget or the political environment might address the narrow affordability question, but is unlikely to result in a retirement program that meets the long-term needs of employers, employees, or taxpayers. Equal caution should be exercised to avoid making changes to benefits in a vacuum. Rigorous analysis of existing data and forecasting of future trends are both invaluable in helping stakeholders determine whether proposed changes will

Plan sponsors must find a balance between controlling contribution volatility and ensuring that costs are not unfairly shifted to future generations of taxpayers.

accomplish their objectives and avoid unintended consequences.

CONCLUSIONS

When comprehensive funding and benefit policies are in place, they work hand in hand to reassure all stakeholders that pension plans are meeting broad public policy objectives. The choice is not *either* to focus on funding *or* to focus on benefits, but rather to do both, in a considered, deliberative manner.

Stakeholders may not necessarily share the same objectives, or they may place different priorities on common objectives, but when it comes to pension reform, providing the opportunity for all voices to be heard enhances transparency and may improve the chances of stakeholder buy-in. The most successful and durable pension reform efforts are ones that strike a balance among recognizing employers' budget constraints, promoting responsible annual funding, and offering reasonable, secure benefits as part of a competitive overall compensation package. With comprehensive funding and benefit policies in place, pension plans will be well positioned to meet current challenges and to ensure that long-term goals are met as well. ■

Notes

1. For a detailed examination of these issues, see "Planning a Successful Pension Funding Policy," Segal *Public Sector Letter*, November 2011.
2. Employees in some DB plans can bear a portion of these risks, if their contributions are adjusted to reflect the impact of the risks on plan costs (i.e., contribution rates that change based upon the actuarial valuation).
3. These replacement ratios are noted on page ii of the 2008 GSU/Aon RETIRE Project Report, available at <http://rmictr.gsu.edu/Papers/RR08-1.pdf>.
4. *State and Local Government Retiree Benefits: Current Status of Benefit Structures, Protections, and Fiscal Outlook for Funding Future Costs*, U.S. Government Accountability Office, 2007.

KIM NICHOLL is a senior vice president and consulting actuary and the National Public Sector Retirement Practice leader of The Segal Company, based in the Chicago office. Nicholl is experienced with the design and interpretation of plan provisions for defined benefit and defined contribution retirement plans and on their relation to ERISA, IRS regulations, and new legislation, and her experience includes all aspects of employee benefit programs. She can be reached knicholl@segalco.com.